

## Message Text

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INFO OCT-01 ISO-00 AID-05 CIAE-00 COME-00 EB-07 FRB-03

INR-07 NSAE-00 USIA-06 TRSE-00 XMB-02 OPIC-03 SP-02

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TO SECSTATE WASHDC 3506

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E.O. 11652: N/A

TAGS: EFIN, EGEN, AR

SUBJECT: SECRETARY DI TELLA SPEAKS ON NATIONAL ECONOMIC PROGRAM

SUMMARY: IN RECENT ADDRESS TO ARGENTINE ASSOCIATION OF ECONOMISTS, SECRETARY GUIDO DI TELLA OUTLINED SEVERAL ASPECTS OF NATIONAL ECONOMIC PROGRAM, HE EMPHASIZED IMPORTANCE OF INCOME REDISTRIBUTION, NEED FOR REALISTIC EXTERNAL POLICIES, REDUCTION OF FISCAL DEFICIT, AND EXPANSION OF INDUSTRIAL ACTIVITY. SURPRISINGLY, SPEECH CONTAINED NO REFERENCE TO CURRENT INFLATION PROBLEMS. DI TELLA'S COMMENTS REGARDING FOREIGN INVESTMENT DISAPPOINTING. END SUMMARY.

1. NOVEMBER 14, STATE SECRETARY FOR PROGRAMMING AND COORDINATION GUIDO DI TELLA SPOKE BEFORE ARGENTINE ASSOCIATION OF ECONOMISTS ON NATIONAL ECONOMIC PROGRAM. SPEECH PROVIDES CONSIDERABLE INSIGHT INTO POLICIES OF PRESENT ECONOMIC TEAM AND JUSTICIALISTA ECONOMIC THEORY. HIGHLIGHTS BELOW.

2. ECONOMIC THEORY AND PLANNING: JUSTICIALISTA MOVEMENT ASSIGNS TOP PRIORITY TO INCOME REDISTRIBUTION AS WELL AS  
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AUTONOMY OF DECISION. ECONOMIC ROOTS MOST CLOSELY TIED

TO WELFARE THEORY. JUSTICIALISMO DENIES ANY FUNDAMENTAL CONTRADICTION EXISTS BETWEEN GROWTH AND DISTRIBUTION - PROBLEMS OF DISTRIBUTION FACED AT ALL INCOME LEVELS. ESSENCE OF JUSTICIALISMO ECONOMIC PLANNING IS MANIPULATION RELATIVE PRICE STRUCTURE FOR APPROPRIATE DOMESTIC RESOURCE ALLOCATION.

3. EXTERNAL SECTOR: EXTERNAL SECTOR FIRST PREOCCUPATION OF MINISTER CAFIERO. IRRITATING MINI-DEVALUATIONS NECESSARY TO ACHIEVE REALISTIC EXCHANGE RATES. IDEA THAT OVERVALUED PESO IS STRONG PESO, OR THAT OVERVALUATION MEANS SOVEREIGNTY, IS TOTALLY FALSE. GOA FAVORS MULTIPLE EXCHANGE RATE SYSTEM, BUT OBJECTIVE IS TO REDUCE CURRENT DISPARITIES TO MORE REALISTIC LEVEL.

4. ARGENTINA MUST EXPORT PRODUCTS USING INTENSIVELY DOMESTIC FACTORS. NEVERTHELESS, EXPORT EXPANSION PROGRAM SHOULD NOT BE BASED ON CHEAP LABOR, AS CASE OF TAIWAN AND HONG KONG. REOPENING AND EXPANSION OF COMMERCIAL RELATIONS WITH EASTERN BLOC COUNTRIES IS SIGNIFICANT DEVELOPMENT. BY CHANNELING EXTERNAL COMMERCE THROUGH PUBLIC MARKETING BOARDS, STATE ABLE TO EXERCISE OLIGOPOLY POWER, BUT PROCESS HAS PRACTICAL LIMITATION BECAUSE ADMINISTRATION EXTREMELY COMPLEX.

5. REGARDING IMPORTS, CURRENT QUANTITATIVE AND FINANCIAL CONTROLS VERY IRRITATING BUT NECESSARY GIVEN EXTERNAL FINANCIAL PROBLEMS. TO EXTENT EXPORT AND DEBT REFINANCING EFFORTS SUCCESSFUL, THESE MEASURES WILL BE GRADUALLY RELAXED. ISSUE OF EFFECTIVE PROTECTION IS COMPLICATED ONE AND SOME RATIONALIZATION IN THIS AREA UNDER REVIEW. THERE IS MUCH TO DO IN WAY OF FURTHER IMPORT SUBSTITUTION, AT LEAST IN AREAS OF PETROLEUM, PETROCHEMICALS, PAPER AND CELLULOSE, AND STEEL.

6. INDUSTRIAL POLICY: INADEQUATE EMPLOYMENT DEMAND IS ONE OF CENTRAL PROBLEMS FACING COUNTRY. IN THIS SITUATION, EXCESS NUMBER OF PUBLIC EMPLOYEES MAY BE NECESSARY IF ONLY ALTERNATIVE OPEN UNEMPLOYMENT. INDUSTRIAL PROMOTION MEASURES ARE IMPORTANT. HOWEVER, BEST WAY STIMULATE INDUSTRY LIMITED OFFICIAL USE

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IS PROVIDE ORDER IN DOMESTIC ECONOMY. PUBLIC SECTOR DOES NOT INTEND TO CONTINUE TO ADMINISTER VARIOUS PRIVATE COMPANIES IT HAS ACCUMULATED OVER LAST TEN YEARS.

7. AGRICULTURAL POLICY: REALISTIC PRICES FROM PLANTING TO HARVEST ARE FUNDAMENTAL TO EXPAND AGRICULTURAL PRODUCTION. GOA OBJECTIVE IS TO RAISE REAL AGRICULTURAL INCOME, BUT ONLY TO EXTENT IT CAN BE RETRANSFERRED VIA TAXATION.

8. INFRASTRUCTURE DEVELOPMENT: IN POWER SECTOR, POWER GENERATION SHOULD GRADUALLY SHIFT FROM THERMAL TO HYDRO-ELECTRIC AND NUCLEAR. REGARDING TELECOMMUNICATIONS, CONFLICTS WITH CERTAIN SUPPLIER COMPANIES HAVE CREATED PROBLEMS. GOA CURRENTLY DEFINING POLICY FOR FORMATION MIXED COMPANIES WITH MAJORITY STATE OWNERSHIP. EXPANSION PUBLIC SECTOR INFRASTRUCTURE SHOULD BE FINANCED WITH PUBLIC SAVINGS, AS WELL AS RESOURCES OF STATE ENTITIES. PUBLIC SECTOR TARIFFS SHOULD NORMALLY BE HIGH ENOUGH TO COVER CURRENT OPERATING COSTS, BUT THEY NEED NOT COVER INVESTMENT AS WELL. ROLE OF CORPORATION OF STATE ENTITIES SHOULD BECOME MORE IMPORTANT IN STIMULATING INFRASTRUCTURE DEVELOPMENT.

9. SALARIES AND PRICES: GOA'S FUNDAMENTAL OBJECTIVE IS TO RAISE REAL SALARY LEVELS. THIS CANNOT BE ACHIEVED BY NOMINAL SALARY INCREASE ALONE; HIGHER PRODUCTIVITY ALSO REQUIRED. SMALLER BUT PERIODIC SALARY ADJUSTMENTS PREFERABLE TO LARGER AND MORE INFREQUENT ONES. GOA PLANS TO TRY EVEN OUT SALARY DISPARITIES AMONG DIFFERENT SECTORS. REGARDING PRICES, GOA SEEKS IMPLEMENT FLEXIBLE POLICY, BUT WILL CONTINUE TO CONTROL COMMERCIAL MARGINS AND PROFITS OF OLIGOPOLY SECTOR (I.E. 500 LEADING COMPANIES). GOVERNMENT WANTS TO AVOID ANOTHER PRICE FREEZE.

10. FISCAL POLICY: IN 1975, FISCAL DEFICIT AS PERCENT GROSS DOMESTIC PRODUCT LIKELY REACH 15 PERCENT. GOA OBJECTIVE IS TO REDUCE 1976 DEFICIT TO 7 TO 8 PERCENT OF GDP THROUGH RESTRICTING EXPENDITURES AND MORE REALISTIC TAX STRUCTURE. THIS DEFICIT AS PERCENT GDP SIMILAR TO ENGLAND OR NEW ZEALAND. REDUCED TAX LEVELS THIS YEAR DUE LIMITED OFFICIAL USE

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DOUBLE PHENOMENON DEFECTIVE ADMINISTRATION AND PAYMENT DELAYS. NEW TAX LEGISLATION UNDER REVIEW EXTREMELY IMPORTANT. CHARACTERISTICS INCLUDE MORE REALISTIC RATES (I.E. REDUCTIONS WHICH WILL HELP REDUCE EVASION) AND CERTAIN INDEXATION ELEMENTS.

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11. MONETARY: GOA SEEKING IMPLEMENT REALISTIC AND MODERN MONETARY POLICY, I.E. ONE IN WHICH MONEY SUPPLY ACCOMMODATES TO REAL NEEDS OF ECONOMY. REAL INTEREST RATES CURRENTLY EXTREMELY LOW AND INCREASE NECESSARY TO RAISE SAVINGS. SOME NEW MEASURES REGARDING INDEXATION OF SAVINGS ACCOUNTS CAN BE ANTICIPATED. IN CURRENT SITUATION, FOREIGN COMPANIES PROBABLY MORE SUBSIDIZED THAN LOCAL ONES REGARDING COST OF MONEY. THIS ANOMALY MUST BE GRADUALLY CORRECTED. FOREIGN BANKS PLAY IMPORTANT ROLE CHANNELING INTERNATIONAL SAVINGS TO ARGENTINA AND FINANCING INTERNATIONAL TRADE. HOWEVER, THEIR ACCESS TO LOCAL DEPOSITS ONLY JUSTIFIED TO EXTENT THEY ALSO ATTRACT FOREIGN RESOURCES.

12. FOREIGN INVESTMENT: FOREIGN INVESTMENT PROBLEM ONE OF DEGREE. IF U.S. OR EUROPE HAD LEVEL OF EXTENAL CAPITAL PENETRATION WHICH EXISTS IN ARGENTINA, IT WOULD BE CONSIDERED CAUSE FOR GRAVE ALARM. PROBLEMS MAY EXIST REGARDING FOREIGN INVESTMENT LEGISLATION AND SOME MINOR MODIFICIATIONS POSSIBLE, BUT BASIC SPIRIT IS THAT COUNTRY NOT HEALTHY IF EXAGGERATED PORTION OF ECONOMY IN FOREIGN HANDS.

13. COMMENT: DI TELLA HAS OUTLINED ECONOMIC DEVELOPMENT MODEL BUILT AROUND INCOME REDISTRIBUTION WITH STRONG LIMITED OFFICIAL USE

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WELFARE OVERTONES. WHEN DISCUSSING POLICY, HE TAKES MORE PRAGMATIC LINE RECOGNIZING NEED TO STIMULATE OUTPUT AND RESOLVE BALANCE OF PAYMENTS PROBLEMS. EMPHASIS IN SPEECH ON GRADUALISM AND LIELY INDEXATION OF KEY ECONOMIC

VARIABLES IS NOTABLE. DI TELLA'S CONCERN ONVER FOREIGN  
INVESTMENT LEVEL SEEMS AT VARIANCE WITH GOA EFFORTS SEEK MORE  
FOREIGN LOAN AND INVESTMENT CAPITAL.  
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## Message Attributes

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